

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AGRE-00 CIAE-00 COME-00 EB-08
INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 FRB-03
OMB-01 PM-05 NSC-05 SS-15 DODE-00 /064 W
-----107288 280446Z /21
R 280347Z JUL 77
FM USLO PEKING
TO SECSTATE WASHDC 8284
INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 1554

DEPARTMENT PASS AGRICULTURE

E.O. 11652: GDS
TAGS: EAGR CH US
SUBJ: OBSTACLES TO US WHEAT SALES TO PRC

1. SUMMARY: A DELEGATION FROM THE NATIONAL COUNCIL OF FARMER COOPERATIVES TALKED WITH THE CHINESE CEREALS, IOLS AND FOODSTUFFS CORPORATION JULY 25 ON THE EXPORT OF US WHEAT TO CHINA. THE PRC DID NOT MAKE MUCH OF THE TCK PROBLEM, BUT INCLUDED PROVISIONS IN A DRAFT CONTRACT FOR ALL-CHINESE INSPECTION AND ARBITRATION OF DISPUTES. THE DELEGATION HAS PROPOSED IN A LETTER TO SECRETARY BERGLAND THAT THE USG PROVIDE COMMODITY INSPECTION INSURANCE FOR AMERICAN WHEAT EXPORTERS TO CHINA. END SUMMARY.

2. GLEN D. HOFER OF NATIONAL COUNCIL OF FARMER COOPERATIVES AND A DELEGATION OF FOUR FROM THE FARM EXPORT COOPERATIVES CALLED AT USLO JULY 26 WITH A LETTER WHICH THEY ASKED BE SENT TO THE SECRETARY OF AGRICULTURE ON THE EXPORT OF US WHEAT TO THE PRC. MR. HOFER SAYS THAT
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HE KNOWS SECRETARY BERGLAND AND TALKED WITH HIM ABOUT WHEAT SALES TO CHINA BEFORE HIS TRIP. TEXT OF LETTER FOLLOWS:

3. BEGIN TEXT: MR. SECRETARY: OUR CONVERSATIONS WITH THE PRC ARE VERY AMIABLE AND FROM THEM WE SENSE AN AGREEABLENESS TOWARD PURCHASES OF

SUBSTANTIAL QUANTITIES IF CONTRACT TERMS, CONTINGENT ON PRICE OF COURSE, CAN BE AGREED UPON. THE TCK PROBLEM WAS THOROUGHLY DISCUSSED AND WE FEEL IS NOT AN UNSURMOUNTABLE PROBLEM. THE ONE AREA THAT THREATENS ANY POSSIBILITY OF PRC PURCHASES OF GRAIN FROM THE U.S. IS THEIR INSISTENCE UPON WEIGHT SPECIFICATION AND QUALITY CONDITIONS AS CERTIFIED BY THE CHINESE COMMODITY INSPECTION BUREAU AND THE ANIMAL AND PLANT QUARANTINE SERVICE AT DISCHARGE POINT. THE WEIGHT CERTIFICATION IS NOT A PROBLEM BUT THE PQNCIY MAINTENANCE DURING THE SEA VOYAGE AND DURING A POSSIBLY EXTENDED WAIT FOR DISCHARGE AT CONGESTED PORTS, IS MORE OF A RISK THAN U.S. SHIPPERS CAN BEAR AS PRIVATE ENTITIES. BY CONTRAST, THE AUSTRALIAN AND CANADIAN WHEAT BOARDS APPARENTLY HAVE GOVERNMENT ASSUMPTION OF THESE RISKS AND ARE ABLE TO ACCEPT CERTIFICATE FINAL ON CHINESE TERMS. THIS PROGRAM WOULD, OF COURSE, HAVE TO BE INDUSTRY WIDE.

4. IN SOME WAYS THIS COULD BE IN LIEU OF AN EXPORT SUBSIDY PROGRAM AS ONE TOOL FOR COMPETITION WITH THE CANADIANS AND AUSTRALIANS IN THIS HIGH POTENTIAL MARKET.
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5. WE REALIZE THIS CONCEPT CANNOT BE GIVEN ADEQUATE CONSIDERATION IN THE TIME FRAME OF OUR VISIT HERE BUT IF YOU THINK IT WORTHY OF FURTHER EXPLORATION WE MIGHT HOLD IT FORWARD AS AN IDEA WE WILL CARRY HOME AS AN APPROACH TO AN OTHERWISE IMPENETRABLE BARRIER TO ALL APPEARANCES. WE WILL BE MEETING WITH THE CORPORATION AGAIN TOMORROW AFTERNOON (JULY 27) AND ON THURSDAY. IF YOU HAVE ANY SUGGESTIONS AS TO OUR APPROACH TO THE CHINESE CERTIFICATE FINAL WE WOULD APPRECIATE YOUR ADVICE. END TEXT.

6. HOFER ALSO FURNISHED USLO WITH A COPY OF A CHINA NATIONAL CEREALS, OILS AND FOODSTUFFS IMPORT AND EXPORT CORPORATION MEMORANDUM ON TCK CONTAMINATION AND A DRAFT CONTRACT FOR SALE OF WHEAT. HOFER FEELS THAT THE TCK PROBLEM IS NOT NOW A SERIOUS ONE AND SUSPECTS THAT THE FALL IN WHEAT PRICES HAD MORE TO DO WITH CANCELLATION OF WHEAT CONTRACTS IN 1974 THAN TCK INFESTATION. THE CONTRACT, HOWEVER,

DOES CONTAIN A STATEMENT THAT "THE WHEAT
SUPPLIED BY THE SELLERS SHOULD BE FREE FROM
THE FOLLOWING OBJECTS OF QUARANTINE..." AND
INCLUDES TILLETIA CONTRAVERSA KUHN (TCK) IN
THE LIST OF "OBJECTS."

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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 1554

DEPARTMENT PASS AGRICULTURE

7. HOFER AND HIS COLLEAGUES ARE MUCH MORE
DISTURBED BY TWO OTHER PROVISIONS OF THE
CONTRACT. ONE IS THAT "GOODS SHALL BE
WEIGHED, INSPECTED AND ANALYZED BY THE CHINA
COMMODITY INSPECTION BUREAU AND ANIMAL AND PLANT
QUARANTINE SERVICE AT THE PORT OF DESTINATION.
WEIGHT, SPECIFICATION AND QUALITY CONDITIONS
AS CERTIFIED BY THE CHINA COMMODITY INSPECTION
BUREAU AND THE ANIMAL AND PLANT QUARANTINE
SERVICE SHALL BE TAKEN AS FINAL. THE BUYERS
SHALL ADVISE BY CABLE DISCREPANCIES, IF ANY,
WITHIN 40 DAYS AFTER THE DATE OF DISCHARGE."
SECOND, "ALL DISPUTES IN CONNECTION WITH THIS
CONTRACT OR EXECUTION THEREOF SHALL BE
STTTLED BY FRIENDLY NEGOTIATIONS. IN CASE
NO SETTLEMENT CAN BE REACHED, THE CASE IN
DISPUTE SHALL THEN BE SUBMITTED FOR ARBITRATION
TO THE FOREIGN TRADE ARBITRATION COMMISSION
OF THE CHINA COUNCIL FOR THE PROMOTION OF
INTERNATIONAL TRADE, PEKING, IN ACCORDANCE
WITH 'THE PROVISIONAL RULES OF THE FOREIGN
TRADE ARBITRATION OF (THE) CHINA COUNCIL FOR

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THE PROMOTION OF INTERNATIONAL TRADE.' THE
DECISION BY THE COMMISSION SHALL BE ACCEPTED
AS FINAL AND BINDING UPON BOTH PARTIES."
TOGETHER, HOFER SAYS, THESE TWO CLAUSES
MEAN THAT NO CERTIFICATION IN THE U.S. WOULD BE
ACCEPTED BY THE PRC AND IN ANY DISPUTE, THE
CHINESE WOULD BE THE SOLE JUDGE. MOREOVER, HOFER POINTED OUT,
CHINESE BOTTOMS WILL BE USED IN SHIPPING ANY
WHEAT FROM THE US AND THAT SINCE THESE SHIPS
HAVE PROBABLY BEEN USED TO CARRY WHEAT BEFORE,
THERE IS NO GUARANTEE THAT WHEAT WOULD NOT BECOME
INFESTED WITH TCK SMUT DURING SHIPMENT. HE FEELS
IT IS IMPOSSIBLE TO EXAMINE A SHIP THOROUGHLY
ENOUGH TO DISCOVER THE PRESENCE OF TCK PRIOR TO
SHIPMENT. HE ALSO FEELS, INCIDENTALLY, THAT
40 DAYS IS FARR TOO LONG A DELAY IN NOTIFICATION
OF DISCREPANCIES.

8. HOFER AND HIS COLLEAGUES FIND THIS RISK
OF CHINESE REJECTION OF SHIPMENT UNACCEPTABLE,
SINCE IT MIGHT BE MANY MILLIONS OF DOLLARS,
WHICH THEY DO NOT HAVE THE RESOURCES TO
FINANCE. THEY BELIEVE, FROM CONVERSATIONS
WITH CANADIAN SHIPPERS, THAT THE CANADIAN
AND AUSTRALIAN AND POSSIBLY THE ARGENTINE
WHEAT BOARDS ASSUME SUCH RISKS FOR
INDIVIDUAL CANADIAN SHIPPERS, AND THEY FEEL
THAT SOME SORT OF GUARANTEE AGAINST A HEAVY
QUALITY RISK IS NECESSARY FOR THEM TO COMPETE
IN THE CHINESE MARKET WITH CANADIAN AND
AUSTRALIAN WHEAT.

9. AFTER EXAMINING SEVERAL POSSIBILITIES,
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SUCH AS INDEPENDENT NON-US SURVEILLANCE
INSPECTION, SEALED BINS, AND ARBITRATION IN
A THIRD COUNTRY, HOFER AND HIS COLLEAGUES
BELIEVE THAT THE BEST WAY OF PUTTING US
EXPORTERS TO CHINA ON AN EQUAL FOOTING
WITH THOSE OF AUSTRALIA AND CANADA IS FOR USG
TO PROVIDE QUALITY RISK INSURANCE AGAINST CHINESE
REJECTION OF SHIPMENTS OF AMERICAN WHEAT WHICH
HAD BEEN CERTIFIED AS SOUND BY USG INSPECTORS.

THEY SAY THAT SUCH INSURANCE IS NOT NOW
AVAILABLE COMMERCIALY.

10. HOFER AND HIS COLLEAGUES THINK, AND WE
AGREE, THAT THE PRC IS NOW WILLING TO BUY
US WHEAT, BUT UNDER TERMS SO STIFF THAT
AMERICAN EXPORTERS ARE UNLIKELY TO SELL.
SO FAR WE ARE UNABLE TO GUESS WHETHER THE
PRC WILL EASE UP ON ITS TERMS OR NOT, BUT
WE DOUBT THAT THEY WILL UNLESS THEIR NEED FOR
MORE WHEAT IS VERY GREAT.

11. COMMENT: WE CAMIT COMMENT ON THE
FEASIBILITY OF QUALITY RISK INSURANCE,
ALTHOUGH SETTING UP SUCH A SYSTEM STRIKES US AS
PROBABLY COMPLEX AND TIME-CONSUMING.
WE DO FEEL THAT UNLESS THE CHINESE SOFTEN THEIR
CONDITIONS ON INSPECTION, IT WILL BE VERY
DIFFICULT FOR AMERICAN SHIPPERS TO SELL WHEAT
TO CHINA WITHOUT SOME WAY TO PROTECT THEMSELVES
AGAINST CHINESE REJECTION OF SHIPMENTS FOR REAL
OR ALLEGED QUALITY PROBLEMS.
WOODCOCK

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Message Attributes

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Disposition Approved on Date:
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